

MINUTES OF THE CAPITAL PROJECTS AND BOND OVERSIGHT COMMITTEE

January 19, 2000

The Capital Projects and Bond Oversight Committee met on Wednesday, January 19, 2000 at 9:00 A.M., in Room 111 of the Capitol Annex. Representative Jodie Haydon, Chair, called the meeting to order, and the secretary called the roll.

Present were:

Members: Representative Jodie Haydon, Chairman; Senator Bob Leeper, Vice Chairman; Senator Bob Jackson; and Representatives Robert Damron, Paul Marcotte, and Jim Wayne.

Guests testifying before the Committee: Finance Cabinet Secretary John McCarty; Bill Hintze, Governor's Office for Policy and Management; Commissioner Armond Russ, Department for Facilities Management; and Gordon Mullis, Office of Financial Management.

LRC Staff: Mary Lynn Collins, Pat Ingram, Jack Affeldt, Lola Williamson Lyle, and Shawn Bowen.

Representative Marcotte made a motion to approve the minutes of the December 14, 1999 meeting as submitted. The motion was seconded and passed by voice vote.

Chairman Haydon reviewed correspondence items in members' folders, including the Kentucky Lottery Corporation's monthly financial status report for November 1999; the Economic Development Cabinet's annual report relating to Economic Development Bond Pool projects; correspondence from Ken Walker, Council on Postsecondary Education (submitted in response to questions raised at last month's meeting regarding postsecondary education institutions' housing policies); and quarterly construction reports submitted by the Administrative Office of the Courts, the Finance and Administration Cabinet, Murray State University, the University of Kentucky, and the University of Louisville.

Chairman Haydon said, because of limited time, the Committee would deviate from its routine review and discuss under new business only those agenda items requiring action; the agenda items requiring action would be voted on as a group.

Chairman Haydon said the first item of new business was a project report submitted by the Finance and Administration Cabinet. He introduced Finance Cabinet Secretary John McCarty; Mr. Bill Hintze, Governor's Office for Policy and Management; and Commissioner Armond Russ, Department for Facilities Management.

Finance Secretary McCarty discussed the State Capitol Master Plan project authorized by the 1998 General Assembly. He said the Finance Cabinet plans to spend \$142,500 from the Capital Construction and Equipment Purchase Contingency Account to complete programming and planning for this project.

In response to a question from Representative Wayne, Secretary McCarty said Norman Berry and Associates, under contract with the Finance Cabinet, has done a tremendous amount of work on the project which involves the entire Capitol campus, including the Capitol Annex. They have identified alternative approaches for the planned Capitol building renovation, and are considering the need for a new office building on the Capital campus. However, before the Cabinet can determine if any of those alternatives will work, additional programming and analysis of the space needs of individual offices, including constitutional officers, legislative staff and legislators, needs to be done. Secretary McCarty said while he could not discuss any specific alternative which will be recommended, he could say with certainty, there will be no new building proposed in front of the Capitol.

Representative Wayne asked why money from the Contingency Account is being allocated to this authorized project when the Governor's recommended budget will be announced soon. He asked if the Cabinet anticipated an appropriation relating to the Capitol restoration. Secretary McCarty said they have had discussions with the Governor's Office, but he could not discuss what will ultimately be in the budget. He said the Cabinet wants to be in a position to respond to whatever is funded in the budget. If they wait for the budget process, valuable time will be lost.

Senator Jackson said he has not seen any consensus on the direction of the Master Plan. [At least three scenarios were considered during development of the Master Plan. Under the "fast track" plan, the Capitol would be vacated and renovation work would be done between General Assembly sessions, with work to be completed by the 2004 Session; it would require all funding to be provided in a short time frame. Another option, taking 6-8 years, would spread funding requirements over a longer time frame, cause less turmoil, and allow the building to be used for regular legislative sessions. The third approach is considered an intermediate step between the first two; it would require finding an alternative site for the 2004 Session of the General Assembly.] Senator Jackson asked if the contingency funds are taking the restoration plans in any certain direction. Secretary McCarty said no matter which scenario is developed, this basic level of analysis is needed; it will not move the restoration project in any certain direction.

Senator Jackson said it sounds as if the Cabinet is considering constructing a new building; he said he was not sure if there is a consensus on that proposal at this point. Secretary McCarty said construction of an executive office building has been discussed. The consultants have already determined that the existing Capitol building is overpopulated. Secretary McCarty said if the state were to spend the level of dollars currently estimated for restoration and then move all staff back into the Capitol building, the state would not be getting a good return on its investment. Senator Jackson said he agreed with Secretary McCarty, but asked that all options remain on the table until a consensus is reached, given the large amount of money that would be required.

Next, Mr. Hintze reported two Kentucky Community and Technical College System (KCTCS) roof replacement projects recently funded through allocations from the Emergency Repair, Maintenance and Replacement Account: Madisonville Technical College Technical Building - \$375,000 and Ashland Community College Auditorium/Arts and Sciences Building - \$245,000. Mr. Hintze reported that KCTCS does not have adequate resources to fund these projects.

Mr. Hintze then reported three allocations from the Capital Construction and Equipment Purchase Contingency Account to cover project cost overruns: \$157,000 (13.7% increase) for the KCTCS Paducah Community College Library Renovation project; \$66,200 (14.7% increase) for the Department of Parks Barren River State Park Dock Replacement project; and \$150,000 (15% increase) for the Department of Parks Greenbo State Park Wastewater Plant project. He said the contingency allocations were needed to meet the low bids of what were highly competitive bids. He also noted that over the next several months, a number of projects authorized in 1998 will be bid.

Mr. Hintze then discussed an unbudgeted federally funded project for the Department of Juvenile Justice. Federal funds in the amount of \$486,000 from the Juvenile Accountability Incentive Block Grant Program will be used for a new kitchen and renovation project at the Morehead Youth Development Center. The federal funds for the Morehead Youth Development Center will be matched with \$54,000 from the Department of Juvenile Justice Miscellaneous Maintenance Account. Mr. Hintze said this project was originally proposed as part of the Department's Six Year Capital Plan. A stipulation for using the federal funds is that the money must be spent by October 2002, which is a short time frame for a construction project of this type. Mr. Hintze said the Department has other projects eligible for federal funding that are not as time sensitive as this one.

Representative Wayne said during the last interim, the Committee reviewed an unbudgeted request by the Justice Cabinet to build a 50-bed "super-max" unit at the Kentucky State Penitentiary using federal funds. He said during the review of the project,

the Committee questioned whether the Cabinet had plans to develop the super-max unit prior to the 1998 legislative session, but failed to submit this project during the budget process. He asked if the Department of Juvenile Justice, in preparing its budget for the 2000-2002 biennium, is anticipating projects that may be eligible for federal funds; and if so, can the Committee be assured that those projects will be included in the Governor's 2000-2002 budget, so there will not be any surprise presentations to the Committee after the budget is enacted. Mr. Hintze said the Administration is aware of the Committee's concern and shares it. He said they are working actively with the Department of Juvenile Justice and the Corrections Department, which are two agencies that receive significant federal financing in the interim, to identify for authorization in the budget projects anticipated to be funded with federal funds.

Representative Wayne said he appreciated that reassurance. He said he did not want to see another situation similar to the super-max proposal, in which essentially the Committee was presented with a project with significant policy implications, done by administrative fiat.

The remaining two projects Mr. Hintze reported included a \$40,000 federally funded scope increase for the Department of Military Affairs Boone National Guard Center. The project includes conversion of the existing cold storage warehouse into an information technology center. The revised project scope is \$680,000.

Lastly, Mr. Hintze reported that Kentucky State University (KSU) is requesting authorization for a federally funded, unbudgeted project, Aquaculture Projects Phase I, with a scope of \$431,095. Mr. Hintze said the KSU Aquaculture Program's importance has increased as a result of the Council on Postsecondary Education's designation of it as a Program of Distinction. This project was initiated by the University at an established scope of \$316,000 and was subsequently increased to \$395,605. The University now needs to approve a change order to purchase and install a specialized water heater. The change order would be for \$36,300, and that would increase the cost of the project beyond the \$400,000 threshold.

Senator Jackson made a motion that all action items on the agenda presented by the Finance and Administration Cabinet be approved. The motion was seconded by Senator Leeper and passed by voice vote.

Next, Mr. Don Mullis, Executive Director, Office of Financial Management, reported on six new projects for the Kentucky Infrastructure Authority (KIA):

- 1) A \$26,179,248 KIA Fund A (Federally Assisted Wastewater Revolving Loan Fund) loan for the Regional Water Resources Agency in Owensboro/Daviess

County. The loan will be used to expand and upgrade sewer facilities. The terms of the loan are 3.8% for 20 years.

2) A \$188,849 KIA Fund A loan for the city of South Shore in Greenup County. The loan will be used to make corrections to the sewer system. The terms of the loan are 1.8% for 20 years.

3) A \$195,000 KIA Fund E (Solid Waste Revolving Loan Program) loan for the Logan County Fiscal Court. The loan will be used to establish a comprehensive county-wide recycling program. The terms of the loan are 2.6% for 10 years.

4) A \$150,000 Fund E loan for the city of Morehead and Rowan County Fiscal Court on behalf of the Community Recycling Center. The loan will be used to build a new community recycling center. The terms of the loan are 2.6% for 10 years.

5) A \$50,000 Fund E loan for the Cumberland County Fiscal Court. The loan will be used to build a recycling center in Burkesville. The terms of the loan are 2.6% for 10 years.

6) A \$31,500 Fund F1 (Federally Assisted Drinking Water Revolving Loan Fund – Design) loan for the city of Hickman in Fulton County. This loan, the first loan from the Federally Assisted Drinking Water Revolving Loan Fund, will be used to plan and design renovations to the city of Hickman's sewer system. The terms of the loan are 3.8% for five years. Mr. Mullis said when the city comes back to KIA for a construction loan, this loan for design will be rolled into the larger loan.

KIA's reapproval of two loans was included in the Office of Financial Management's correspondence but not discussed since they did not require Committee action. They were: Lewis County Sanitary District #1 – Fund A loan increase of \$62,000 and City of Paintsville – Fund B (Infrastructure Revolving Fund) reapproval only.]

Mr. Mullis next presented a new bond issue report for State Property and Buildings Commission Revenue Bonds, Project No. 65, in the amount of \$133,078,280. This is a composite bond issue to refund notes that provided interim financing for projects authorized by the 1998 General Assembly. Project No. 65 will provide long-term financing. Mr. Mullis said the value of the interim financing note program averages about 3.5% in financing cost, which has allowed the Commonwealth to save a significant amount of money. Mr. Mullis said after earlier correspondence to the Committee on this issue, the trustee for the bond issue changed from State Street Bank to Bank One Kentucky. He explained that State Street Bank declined the offer to serve as trustee when they realized the contract bid was for total cost rather than annual cost.

Senator Jackson made a motion to approve the seven items reported by the Office of Financial Management. The motion was seconded by Representative Wayne and passed by voice vote.

Also submitted for the Committee's review, but not discussed, were two follow-up reports for previously approved Kentucky Economic Development Finance Authority (KEDFA) bond issues: KEDFA Series 1999 Health Care Facilities Revenue Bonds, Henderson County Health Care Corporation Project, \$4,665,000 and KEDFA Series 1999 Health Care Facilities Revenue Bonds, Baptist Convalescent Center, Inc. Project, \$6,000,000.

Lastly, Mr. Mullis reported two new School Facilities Construction Commission (SFCC) bond issues: Bardstown Independent (Nelson Co.) and Lawrence County.

Senator Jackson made a motion to approve the school bond issues with SFCC participation in debt service. The motion was seconded by Senator Leeper and passed by voice vote. Representative Damron abstained from the vote, citing a conflict of interest, under Section 57 of the Constitution.

Chairman Haydon said there were three locally funded school bond issues submitted to the Committee for review this month: Beechwood Independent (Kenton Co.), Campbell County, and Fulton Independent (Fulton Co.). He said no further action on these bond issues was required.

Chairman Haydon said also included in members' folders were three information items: a Capital Projects Update, recent news articles and editorials on state leasing, and a status report on bills relating to capital construction.

Chairman Haydon said the Committee's next meeting is scheduled for Wednesday, February 16, at 9:00 a.m. in Room 131 of the Annex.

With there being no further business, Senator Leeper made a motion to adjourn the meeting. The motion was seconded by Senator Jackson. The meeting adjourned at 9:35 a.m.